

Strategies To Limit Cuts As Job Losses Soar

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NEW YORK -- Friday's government report that businesses cut another 598,000 jobs in January was yet another sign that the recession is deepening. The unemployment rate has jumped from 4.9% in December 2007 to 7.6% last month, the highest since September 1992.

U.S. companies have let go 3.6 million workers since the recession began in December 2007. And more layoffs are expected in coming months, as the wave of job cuts announced in recent weeks by companies like Home Depot, Caterpillar, and Macy's are brought to reality.

Economists wouldn't be surprised if the unemployment rate hits 9% this year, even with the fiscal stimulus plan being debated in Washington.

Recessions and layoffs go hand-in-hand. Labor expenses are the biggest cost item for most businesses. Paring headcount is viewed as the quickest way to bring down costs during a time of falling revenues. Given the rapid deterioration of the economy amid continued tight lending conditions, companies will be even more inclined to reduce costs as quickly as possible.

But companies could explore other ways to hold down costs rather than reducing staff size. After all, job growth in the last expansion was one of the weakest in the postwar era, meaning many companies this time around aren't flush with employees. There's less fat to cut from payrolls.

Tom Murphy, executive vice president at business consulting firm RSM McGladrey, points out that not so long ago, the U.S. faced a shortage of skilled workers. Companies are short-sighted if they lay off these same valued workers.

"When the economy comes back, these same businesses will face shortages again," he says.

From an economic view, layoffs contribute to a negative feedback loop: Even workers unlikely to be let go cut spending and save more. Their retrenchment reduces overall demand, making further layoffs more likely.

Instead of outright job cuts, Murphy says companies should consider other ways of boosting cash flow or limiting costs. Some lines of attack are renegotiating payment schedules with suppliers, streamlining production processes and overhauling inventory controls.

These strategies may not halt all layoffs, but they could limit the number.

"Now, when business is slow, is the opportune time to look at your operations and get lean," Murphy says. Companies also can take advantage of the fact that -- in today's weak labor markets -- employees are more likely to buy in to devising strategies that streamline and save costs.

Companies are also trying to pare labor costs in ways besides cutting head count.

Cummins, Yahoo, and Macmillan have announced pay freezes. Layoffs once were considered preferable to freezing salaries as a way to cut costs. The thinking was the misery walked out the door. Today, however, freezing wages is seen as a way to spread the pain out to all employees -- including upper management -- while retaining valued employees.

Other companies, including FedEx, General Motors, and publisher McClatchy, have suspended their contributions to 401(k) plans in order to save money.

In addition, companies can look at non-core expenses, says Philip Moorcroft of expense management firm **MGPS**. The Toronto-based company advises businesses on how to trim expenses that aren't directly tied to production. That includes expenses such as telecommunications, warehousing, and travel.

"People don't pay attention to the little costs," says Moorcroft. "When they have to cut, they only look at big-ticket items," which most often means labor.

Moorcroft points to an oil and gas company that hired MGPS to reduce costs. MGPS discovered many purchasing processes were done informally and costs weren't tracked very well. MGPS put in place competitive bidding from suppliers, restructured ordering and changed telecommunications and courier suppliers.

The oil and gas company was able to cut 27% from the \$2.6 million spent annually on non-core expenses.

Moorcroft admits controlling non-core expenses won't necessarily stop all layoffs. But he says, "You might have the option to stem layoffs -- to perhaps 4% instead of 5% of your payroll."

And in the current environment, that difference is extremely important to the 1% of workers saved.

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